

Research Markets Today

3 October 2023

Events Round-Up

NZ: Dwelling consents (m/m%), Aug: -6.7 vs. -5.4

JN: Tankan large manufacturers, Q3: 9 vs. 6 exp.

EA: Unemployment rate (%), Aug: 6.4 vs. 6.4 exp.

US: ISM manufacturing, Sep: 49.0 vs. 47.9 exp.

Good Morning

The new month has begun with more of what we saw in September – higher and steeper yield curves with fresh highs in long-term rates being set, those higher rates negatively impacting the equity market and weaker risk appetite and economic resilience supporting the USD.

Yields and US equity futures opened the week on a stronger footing after the surprise last-minute weekend agreement by Congress to avoid a US shutdown with a funding bill that will extend spending through to mid-November. Yields continued to push higher overnight, with a notable extension after the stronger than expected US ISM manufacturing survey was released.

The ISM manufacturing index rose by 1.4pts to 49.0, more than expected, with gains of around 2½ pts for the production, new orders and employment sub-indices. The sub-50 reading is still consistent with manufacturing sector contracting, but at a milder pace, with the hit from higher interest rates and the weaker global economy fading. The prices paid index surprisingly fell by 4.6pts to 43.8 in the face of higher oil prices. Overall, the survey was yet another indicator consistent with some lingering US economic resilience and played to the theme that a soft landing for the economy was possible.

Fed Fund futures now point to a near-even chance of another 25bps hike by the December meeting. The US Treasuries curve is higher and steeper, with 10-year and 30-year rates trading at fresh highs for the cycle. The 10-year rate hit the 4.70% mark before some support was found and it is currently up 10bps since the end of last week to 4.67%, and 5bps up from the NZ close.

Higher Treasury yields have spilled over into other markets, with the UK 10-year rate up 13bps and Germany's 10-year rate up 8bps. Japan's 10-year rate continues to push higher and reached a fresh decade-high of 0.78% yesterday. The BoJ announced it would purchase extra

amounts of 5-10 year debt on Wednesday to contain yields.

Higher oil prices haven't contributed to the rates backdrop, with prices down for the third day running, currently down 1½-2% for the day, WTI trading around USD89 and Brent crude below USD91.

Higher rates have impacted the equity markets, with higher S&P futures yesterday giving way and the S&P500 is currently down 0.5%, extending the losses seen through September. The Euro Stoxx 600 index closed down 1%.

Weaker risk sentiment has seen broad-based support for the USD, with the DXY index recovering losses at the end of last week to punch back up through the recent high to just shy of 107. The yen fell to a fresh low for the year, but USD/JPY has stopped short of the 150 mark, trading just below that psychological level, a break of which would raise the chance of official intervention. EUR is back trading sub 1.05 and GBP is holding just over 1.21.

The NZD and AUD are both weaker, the latter underperforming and falling over 1% from last week's close to 0.6370. The NZD's foray above 0.60 proved short-lived, underlining that level as a mark of resistance and it is trading back down at 0.5950. NZD/AUD has nudged up to 0.9340 but the NZD is modestly weaker on the other key crosses.

The domestic rates market was quiet yesterday, with NSW on holiday. Higher US Treasury yields on the Asian open spilled over into the local market, with some NZ underperformance thrown into the mix, seeing NZGBs marked 4-6bps higher across the curve and swaps up a parallel 5bps. Most rates closed at levels not seen in more than a decade, and the overnight selloff will likely see even higher rates today.

In the day ahead we'll be interested in the NZ quarterly survey of business opinion, watching for signs of further easing in labour market, capacity pressures and inflation indicators, while the trading activity indicator will give a good steer on how weak growth was in Q3. The RBA policy meeting, even with a new Governor at the helm, should be uneventful with policy on hold, as the Bank likely awaits the Q3 CPI print before deciding whether to hike again. The US JOLTs report tonight will be of interest, given the focus on the US labour market and a weak outcome last

month moved the market. During NZ trading hours watch out for comments by the Fed's Mester, although we heard from plenty of Fed speakers overnight and the same familiar messages were simply retold.

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Coming Up

	Perioc	Cons.	Prev.	NZT	
NZ	NZIER quarterly survey of business opinion			10:00	
US	Fed's Mester speaks on economic outlook			12:30	
AU	Home loans value (m/m%)	Aug	0.0	-1.2	13:30
AU	Building approvals (m/m%)	Aug	2.8	-8.1	13:30
AU	RBA cash rate target (%)	Oct	4.1	4.1	16:30
US	JOLTS job openings (m)	Aug	8.8	8.8	03:00

Source: Bloomberg, BNZ

Indicative overnight ranges (*)					Other FX			Equities				Commodities**		
	Last	% Day	Low	High		Last	% Day	Major Indices			Price			
									Last	% Day	% Year		Last	Net Day
NZD	0.5952	-0.8	0.5945	0.6008	CHF	0.9174	+0.2	S&P 500	4,272	-0.4	19.1	Oil (Brent)	90.79	-1.6
AUD	0.6371	-1.0	0.6363	0.6426	SEK	11.051	+1.3	Dow	33,331	-0.5	16.0	Oil (WTI)	89.08	-1.9
EUR	1.0498	-0.7	1.0488	1.0592	NOK	10.848	+1.4	Nasdaq	13,248	+0.2	25.3	Gold	1830.0	-0.9
GBP	1.2116	-0.7	1.2108	1.2220	HKD	7.833	+0.0	Stoxx 50	4,138	-0.9	24.7	HRC steel	695.0	-1.3
JPY	149.77	+0.3	149.56	149.87	CNY	7.298	-0.2	FTSE	7,511	-1.3	8.9	CRB	284.5	-0.9
CAD	1.3668	+0.7			SGD	1.373	+0.5	DAX	15,247	-0.9	25.9	Wheat Chic.	593.3	+3.5
NZD/AUD	0.9342	+0.2			IDR	15,530	+0.5	CAC 40	7,068	-0.9	22.7	Sugar	26.35	-0.5
NZD/EUR	0.5670	-0.0			THB	36.94	+1.0	Nikkei	31,760	-0.3	21.1	Cotton	86.86	-2.1
NZD/GBP	0.4913	-0.0			KRW	1,352	+0.3	Shanghai	3,110	+0.1	2.3	Coffee	149.1	+2.0
NZD/JPY	89.14	-0.5			TWD	32.22	-0.1	ASX 200	7,033	-0.2	8.9	WM powder	3020	+1.9
NZD/CAD	0.8135	-0.1			PHP	56.79	+0.4	NZX 50	11,243	-0.5	2.6	Australian Futures		
NZ TWI	70.85	-0.4										3 year bond	95.91	0.00
Interest Rates														
	Rates				Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds			NZ Swap Yields		
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last				Last	
USD	5.50	5.66	5.02	4.36	USD	4.67	0.10	15-Apr-25	5.78	0.04		1 year	5.96	0.03
AUD	4.10	4.14	4.38	4.87	AUD	4.49	0.00	15-Apr-27	5.42	0.04		2 year	5.77	0.05
NZD	5.50	5.73	5.77	5.24	NZD	5.37	0.06	15-May-28	5.33	0.05		5 year	5.28	0.05
EUR	4.00	3.95	3.83	3.47	GER	2.92	0.08	15-May-31	5.35	0.05		7 year	5.22	0.05
GBP	5.25	5.41	5.19	4.44	GBP	4.56	0.13	14-Apr-33	5.37	0.06		10 year	5.24	0.05
JPY	-0.04	-0.03	0.21	0.99	JPY	0.78	0.01	15-May-41	5.59	0.06		15 year	5.29	0.05
CAD	5.00	5.51	5.36	4.50	CAD	4.03	-0.05	15-May-51	5.58	0.06				

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer

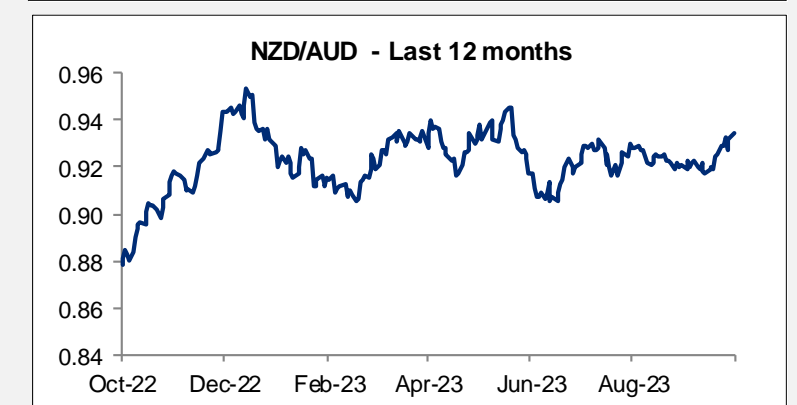
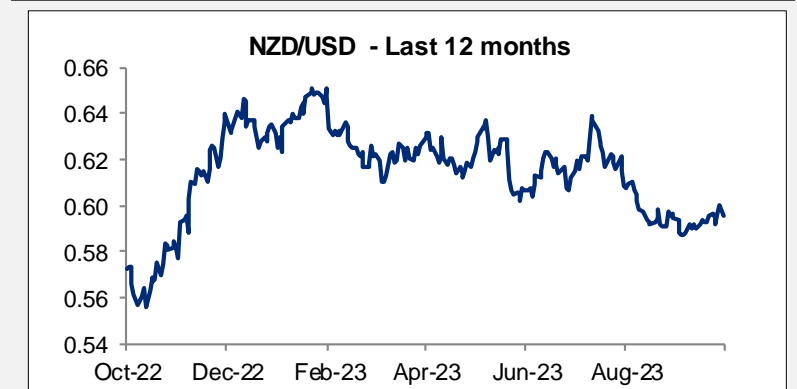
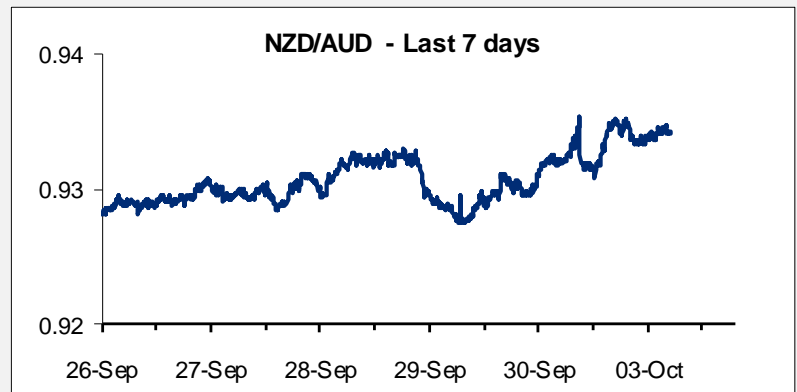
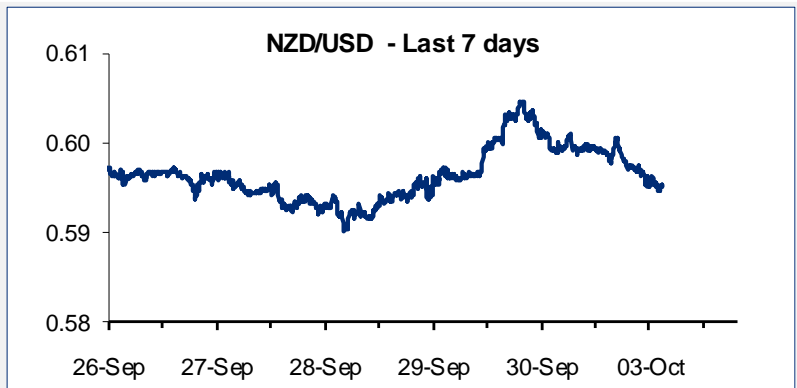
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:58

Source: Bloomberg

NZD exchange rates

2/10/2023	6:58 am	Prev. NY close
USD	0.5952	0.5998
GBP	0.4913	0.4917
AUD	0.9342	0.9321
EUR	0.5670	0.5673
JPY	89.14	89.59
CAD	0.8135	0.8143
CHF	0.5460	0.5490
DKK	4.2284	4.2303
FJD	1.3658	1.3763
HKD	4.6619	4.6968
INR	49.43	49.90
NOK	6.4565	6.4155
PKR	170.67	172.58
PHP	33.80	33.94
PGK	2.1723	2.1939
SEK	6.5773	6.5449
SGD	0.8172	0.8194
CNY	4.3438	4.3856
THB	21.99	21.84
TOP	1.3884	1.4140
VUV	72.48	73.40
WST	1.6398	1.6525
XPF	67.48	67.77
ZAR	11.4277	11.3498



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.07	0.44
3 Months	0.17	0.83
6 Months	-0.81	0.44
9 Months	-5.08	-1.75
1 Year	-11.80	-7.81

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-11.27	-10.06
3 Months	-31.28	-29.59
6 Months	-59.85	-56.11
9 Months	-88.77	-81.29
1 Year	-117.07	-105.42

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